

Shortages and Surpluses: *Macro Policy in New U.S. Labor Markets*

**Berlin
IIRA**



**Sept.
2003**

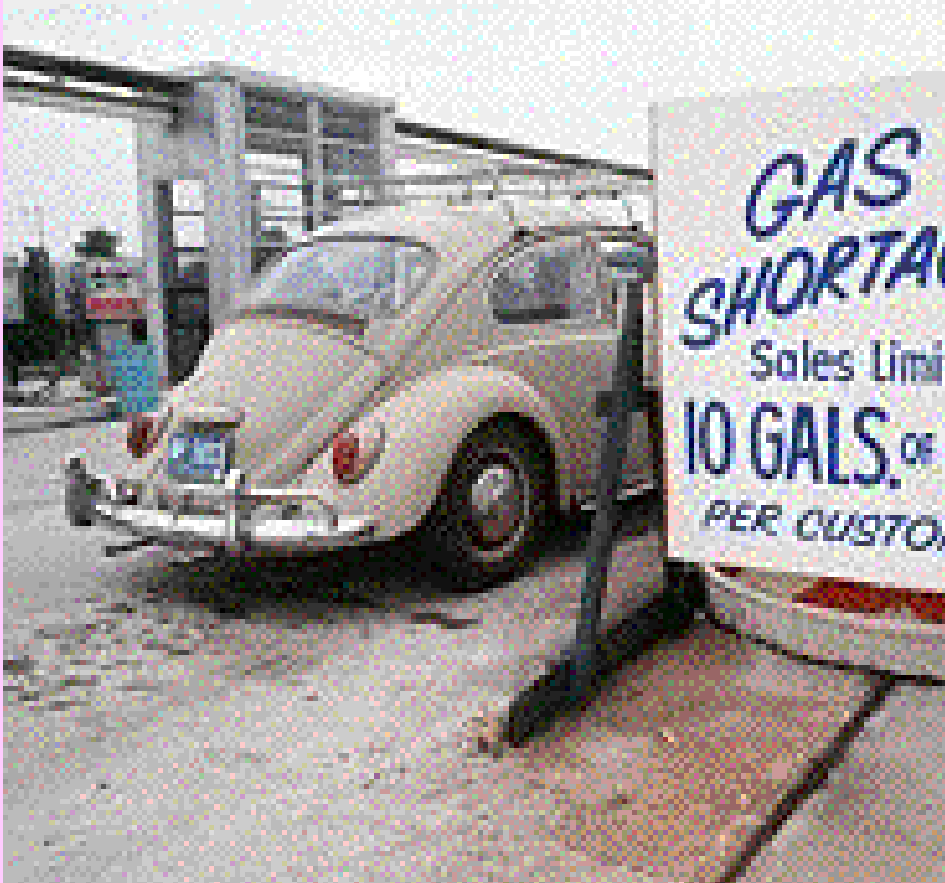


**Daniel J.B. Mitchell
and**



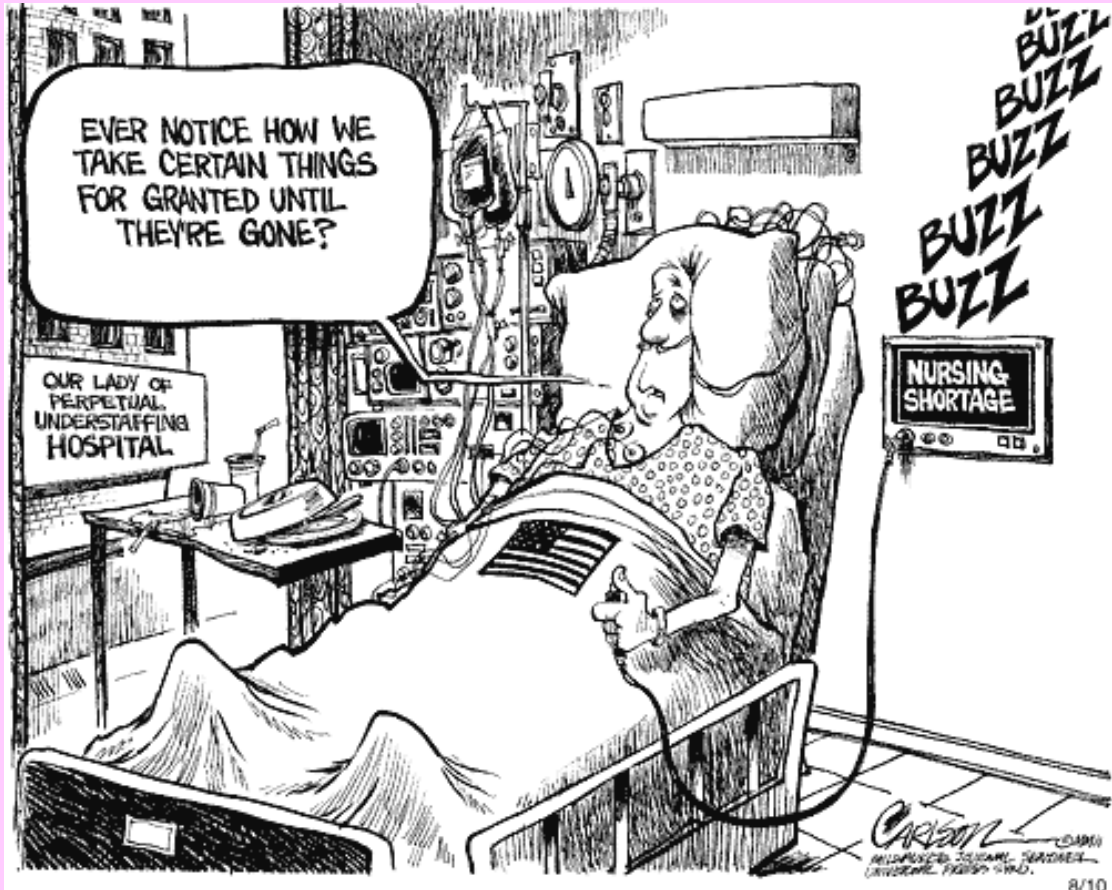
Christopher L. Erickson

Usual View



Shortages are Bad Things

Usual View



Shortages are Bad Things

Usual View



Photograph by Joe Munroe/Ohio Historical Society Collections

Surpluses are Bad Things

Usual View



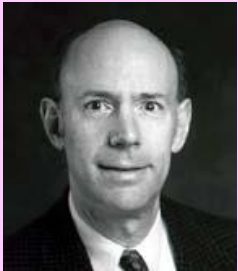
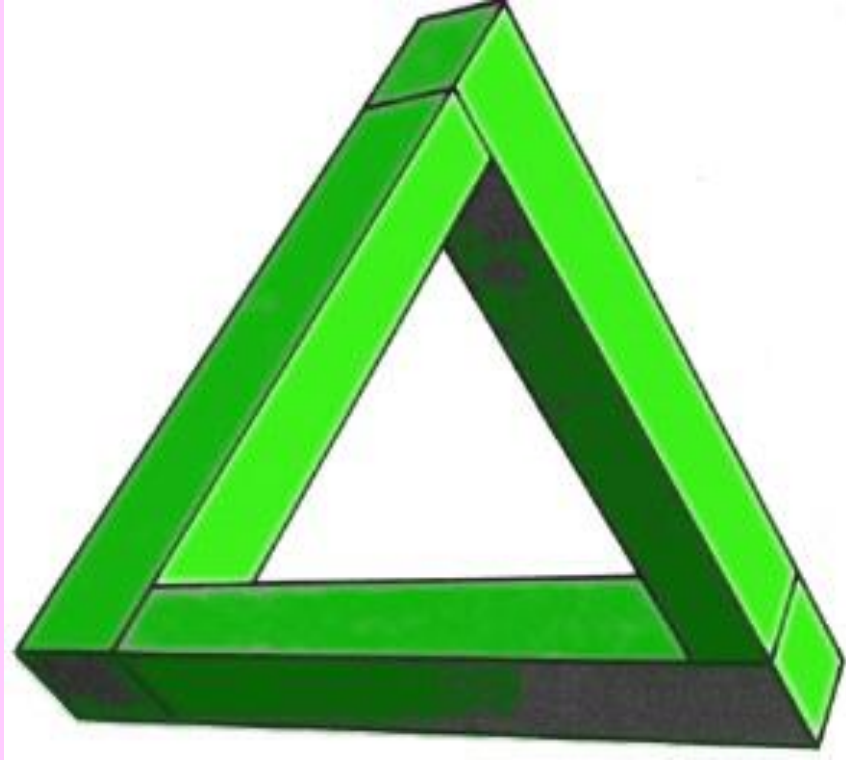
Surpluses are Bad Things

Usual View



Surpluses are Bad Things

Our View



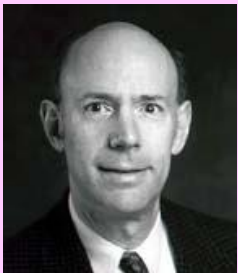
Shortages can be

Good Things



**because they can help
avoid surpluses which are
Bad Things**

Example: Nurse Shortage Avoids Nurse Layoffs at UCLA



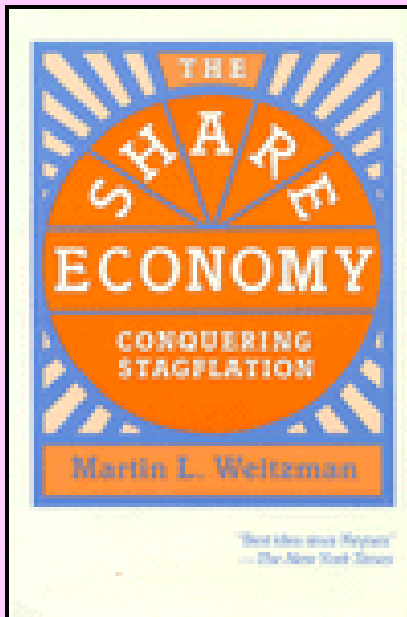
Shortages can be

Good Things

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**Idea: Create a labor shortage to
lower unemployment and
dampen the business cycle.**



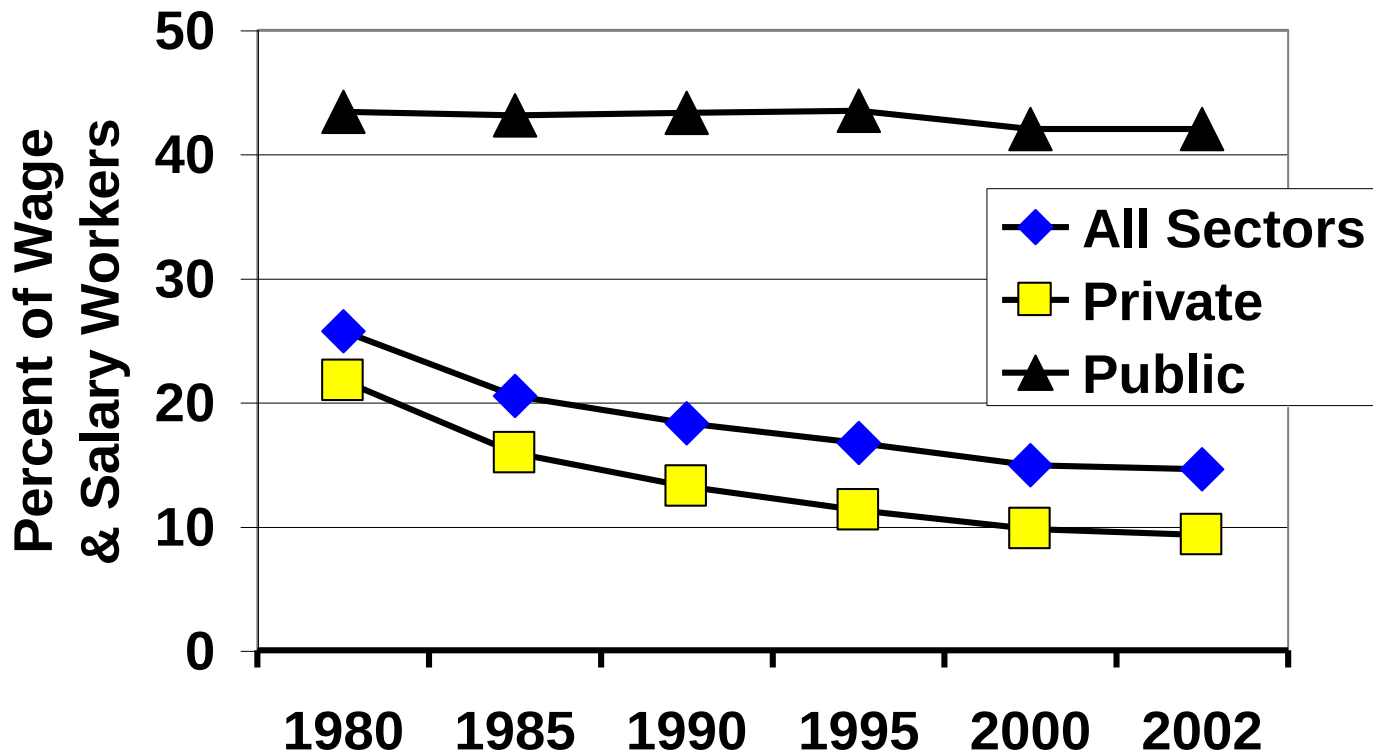
**Labor gets a
percentage
share...**



**...instead of a
fixed wage.**

***Martin Weitzman's
“Share Economy” (1984)***

Trend in Union Representation



De-Unionization

Richard Freeman and James Medoff



The Two-Face Model of Unions



What Do Unions Do? (1984)

Mitchell and Erickson (and U.S. labor law)

“Inequality of bargaining
power” is basis of the
1935 Wagner Act



Not
competition
but
monopsony

reduced
voice,
pay,
benefits



*What Do Nonunion
Employers Do?*

Textbooks: *Monopsony* *(in the labor market)*



**Company
store**



**Company
town**

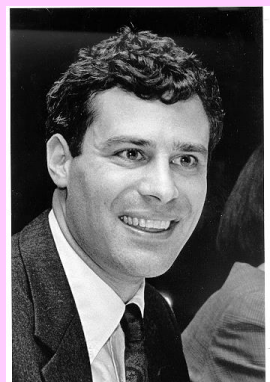
(late 19th century)

David Card and Alan Krueger

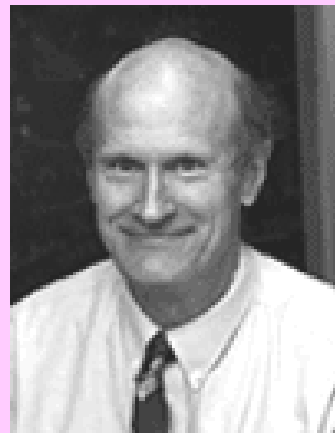
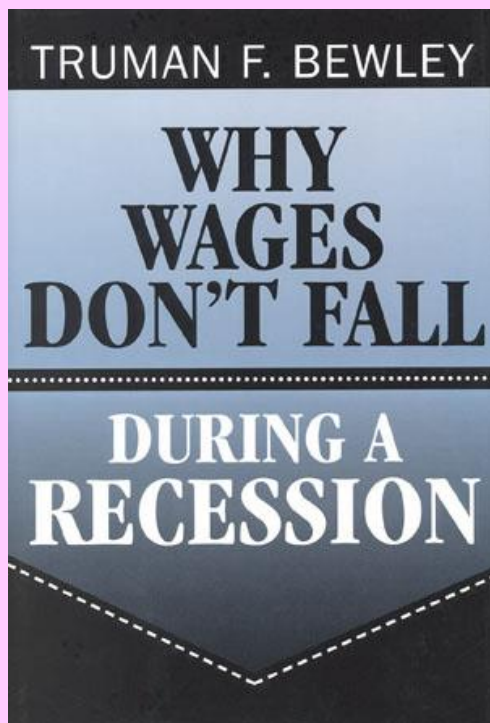


*Nonunion
monopsony
applied in micro
context to the
minimum wage*

*Mitchell and
Erickson applied
this type of model
but in the macro
context.*



**Combine the
Card-Krueger
monopsony with
downward
nominal wage
rigidity**



Mitchell-Erickson Monopsony



Approach Explains:



- Why the U.S. had chronic labor shortages in the late 1980s and 1990s
- Why the unemployment rate could fall to 4% without a big jump in inflation
- Why the recessions of the early 1990s and early 2000s were mild - and does so...

...without relying on new economy, globalization, technology and other explanations

A Wagnerian Moment



**Die Walküre:
Siegmond meets Sieglinde**

*Says who he isn't,
rather than who he is*

A Wagnerian Moment



Not saying business cycle is dead.

**Not even saying all recessions will
henceforth be mild.**

**Not saying that good macro policy
doesn't matter and that all changes in
macroeconomics are due to changes in
the labor market**

Historical Source Material: *Documents at Reagan Presidential Library*



*and memoirs of various
policy makers*



**Martin
Feldstein**

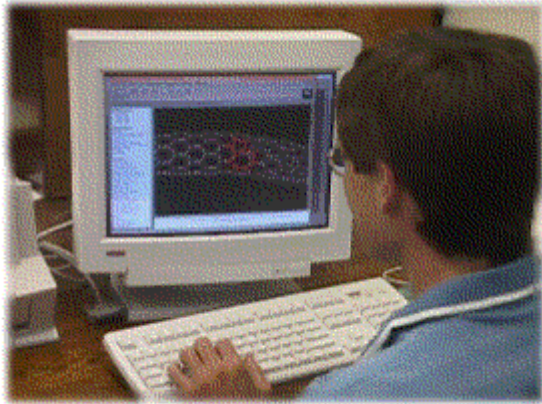


**Murray
Weidenbaum**



**William
Niskanen**

Historical Source Material: *Federal Reserve Transcripts*



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Schedule of Meetings, Statements, Minutes, and Transcripts

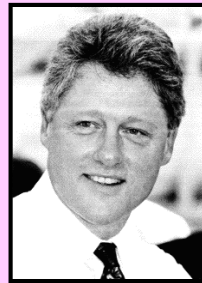
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Minutes

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Mitchell-Erickson Historical



Analysis Shows That:



- **De-unionization occurred especially under Reagan but administrative policy makers did not perceive it as a macro strategy**
- **Monetary policy makers continued to use a wage-push model in evaluating labor market**
- **Even into 1990s, macro analysis of labor market used implicit bargaining approach, e.g., ...**

...what will workers “demand” or what will workers “accept”

Note: *A Work in Progress*



Comments and
suggestions welcome

Still loose ends

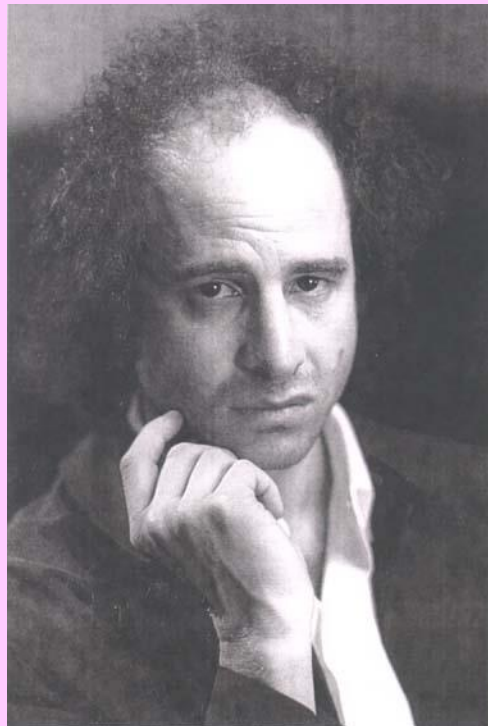


Example: *Experience abroad:*

- ***East Asian countries?***
- ***EU countries?***

**“You can’t have
everything. Where
would you put it?”**

Stephen Wright

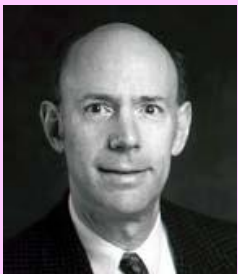


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